Postal Regulatory Commission
Submitted 3/20/2017 2:04:34 PM
Filing ID: 99517
Accepted 3/20/2017

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

STATUTORY REVIEW OF THE SYSTEM FOR REGULATING RATES AND CLASSES FOR MARKET-DOMINANT PRODUCTS	DOCKET NO. RM2017-3

COMMENTS OF MAILERS HUB LLC AND THE NATIONAL ASSOCIATION OF ADVERTISING DISTRIBUTORS
(March 20, 2017)

Pursuant to Order No. 3673, Mailers Hub LLC and the National Association of Advertising Distributors submit the following comments on the above-cited docket.

I. INTRODUCTION

Mailers Hub LLC (MH) is a private subscription service providing postal- and mailing-related information, resources, and support to printers, mailing service providers, and related businesses.

The National Association of Advertising Distributors (NAAD) is an organization of mailing service providers including a subset who also own a national residential address database.

Mailers Hub LLC is NAAD's strategic partner, providing information and representation on postal and regulatory affairs.

II. PURPOSE OF THE ORDER

In Order No. 3673, issued December 20, 2016, the Postal Regulatory Commission ("PRC" or "the commission") gave advance notice of proposed rulemaking related to its review of the system of regulating rates and classes for market-dominant Postal Service products. That system, and the requirement for the PRC to review it, were set forth in the Postal Accountability and Enhancement Act (PAEA), enacted in December 2006.

In its order, the PRC detailed the nine objectives of the ratesetting system prescribed by the PAEA, and offered for each a "preliminary definition" and a "potential measurement" by which achievement of the objective could be evaluated. In turn, the commission invited "comments from interested persons regarding the process and structure of the review, as well as whether the current system is achieving the objectives ..." and asked that commenters frame their comments as responses to four questions:

1. Is the framework proposed by the Commission appropriate for the review?
    a. For each objective, is the preliminary definition reasonable? If not, please suggest alternative definitions.

b. For each objective, are the potential metrics for measuring the achievement of the objective reasonable? If not, please suggest alternative metrics for measuring whether the objective is being achieved.

2. If the proposed framework is not appropriate for the review, please identify the framework that should be used for the review and describe how to measure the achievement of the objectives in that alternative framework.
3. Based on the Commission's proposed framework or an alternative framework provided in response to question 2, is the current system achieving each objective, while taking into account the factors? ...
4. If the system is not achieving the objectives, while taking into account the factors, what modifications to the system should be made, or what alternative system should be adopted, to achieve the objectives?

III. FRAMEWORK, DEFINITIONS, AND METRICS

Regarding questions 1 and 2, MH and NAAD do not believe there is a single "right" framework for examining as complex an issue as whether the current ratesetting process is "working," i.e., whether it's achieving a set of nine objectives (and other factors not detailed by the PRC's order). Were it feasible to isolate each objective, as if it were unrelated to others, and examine whether it's being achieved, that would obviate the need for even asking about the framework for an examination.

Though alternative approaches might be equally workable, and – in the opinion of others – more desirable or useful, it's unlikely that the many parties who are or will be engaged in this review and proposed rulemaking will be disabled from full participation if their ideal framework is not adopted.

Just as debating the shape of the negotiation table delays the start of meaningful discussion, we believe that protracted maneuvering around the framework of the review consumes valuable time that should be devoted to substantive evaluation and dialogue about whether the objectives have been achieved.

Therefore, we believe the commission's framework, preliminary definitions, and potential measurements are sufficient to allow the comment, review, and rulemaking processes to successfully continue.

IV. ACHIEVEMENT OF THE OBJECTIVES

Responding very narrowly to the basic question of whether the PAEA ratesetting process is achieving its objectives, without allowing for other than a "yes" or "no," the answer would have to be "no," the process is not working as designed. However, answering with a singular, universal, "yes" or "no" would require that the evaluation ignore significant exogenous influences that exist, that are not considered by the ratesetting provisions of the statute, and that contaminate the evaluation of whether the system meets any objective. Therefore, a "yes" or "no" response is so narrowly constrained and so indifferent to significant other matters bearing directly on the success of the process, that either would be misleading and inaccurate at best, and thus so inadequate in presenting a true picture as to be functionally useless.

Moreover, the nine objectives are not free-standing, but interrelated parts of a whole, and so evaluation of each – on its own as well as how it supports the others – is essential to the overall evaluation of the process. In other words, to be fair and accurate in evaluating whether the system works as a whole, i.e., whether it achieves its objectives, requires summing the separate, contextual reviews of each component objective.

a. Objective 1: To maximize incentives to reduce costs and increase efficiency.

In the commission's preliminary definition, it cited the use of "flexibility under the price cap, pricing differentials, and workshare discounts, to the fullest extent possible to incentivize the reduction of costs and increases in operational and pricing efficiency" as hallmarks of a system achieving this objective. The USPS appears to be using price flexibility, but its usage and impact may not be entirely successful.

First, the "flexibility" under the cap is not as great as it appears.

Compliance with the CPI cap is determined at the class level, but begins with applying a proposed level of rate increase to the volumes in component rate cells, then adjusting them to maintain logical rate relationships between rate categories, between base rates and discounts, and (where applicable) between regular and nonprofit or preferred rates as required by statute. The net result must be at or below the cap, even though individual price cells typically experience greater or lesser degrees of rate change.

Aside from maintaining logical rate relationships, workshare discounts cannot be offered (to incentivize desirable mailer behavior) to the extent the USPS (or mailers) may find desirable or appropriate because of limitations on "passthroughs," i.e., the amount of the value of mailer worksharing reflected in a discount. An example would be Full Service intelligent mail barcoding: If the USPS had its way, all mail would bear an IMB, and all mailings would be presented under Full Service criteria. However, absent a mandate to mail preparers, there isn't a magnitude of discreetly identifiable cost saving (linked specifically to us of the IMB versus a Postnet barcode) to support an incentive (discount) adequate to quickly move ratepayers and mailers to Full Service.

In practicality, therefore, the Postal Service's "flexibility" under Objective 1 is constrained. It must stay within the boundaries of the CPI cap at the class level, and can adjust component rates within a class only insofar as the net result would comply with other applicable criteria and with the cap overall.

Second, measuring success in achieving "operational and pricing efficiency" is a matter that requires the narrow assumption that reduced cost equals increased efficiency, and that other considerations, such as service, are irrelevant, or at least less important.

History has shown that, by imposing a limit on the Postal Service's ability to increase revenue, the PAEA ratesetting process forced the agency to reduce costs, but that does not equate to the creation of "incentives" or operating efficiency. Effectively, the limitation on revenue increases forced the USPS to find ways to live within its means, and to do so the USPS engaged in intensive efforts to improve the automated processing of letters and flats, to reduce its service commitments (e.g., for overnight delivery of First-Class Mail), to shrink its processing infrastructure to better align with the reduced volume of mail, to improve delivery operations, and expand its non-career labor force.

Making the Postal Service live within its means may have been the right thing to do, assuming the "means" were adequate to allow it to function in a manner consistent with its mission and obligations. Similarly, some of the broad-brush initiatives it took to reduce cost might have been prudent and necessary anyway, and were spurred into realization by the cap on revenue. However, having no choice to do otherwise does not constitute an "incentive," in the customary meaning of a reward, nor does it mean that the wisest choices were made to achieve an outcome for which there was no viable alternative.

In forcing operational decisions that are primarily based on reaching cost reduction targets (to become more "efficient"), choices were made between what some would characterize as "maintaining service" and elimination of the costs such levels or degrees of service represented. As a result, the answer to whether Objective 1 was achieved should be "yes, but." And the non-statutory impact of the "but," i.e., what it means in practical terms to postal customers and ratepayers, should not be set aside as technically outside the scope of evaluating the achievement of the objective. As noted earlier, Objective 1 and Objective 3 (related to service) must not be evaluated independently but as parts of a whole.

b. Objective 2: To create predictability and stability in rates.

Calculation of the Postal Service's rate authority under the current ratesetting system involves applying one of three formulae that, while stated awkwardly in the current implementing regulations, are neither complicated in concept nor mathematically difficult. As a result, it is easy to determine at any point in time what the maximum rate increase would be if the USPS were to seek one at that time.

However, by linking the agency's rate authority to the Consumer Price Index for All Urban Consumers, the "predictability" and "stability" of rates is linked directly to the predictability and stability of the cost of living, not something within the control of, nor necessarily relevant to, the Postal Service.

Moreover, should the CPI start to rise dramatically, or should inflation set in at the rate seen in the 1980s, postage rates might be predictable but not in the way that the PAEA's authors would have hoped, and "stability" might be replaced with volatility.

Granted, the USPS could set increases at a level that would occur annually (for example) and be below the cap linked to the CPI, but – again – external influences have made that impossible. As a result, the Postal Service generally has sought (and likely will continue to seek) the maximum available rate increases, though presumably at annual intervals.

Further, as we discuss below, the ability to forecast rates relies in large part on the ability to forecast costs and manage cost drivers (and control them to a meaningful degree). If variable external factors drive significant costs that the USPS cannot control, the agency is commensurately unable to provide ratepayers with reliable forecasts of when rate increases would be needed or the size of those increases (if not at the maximum permitted under the cap).

Setting aside these exogenous influences, and focusing narrowly on the size and frequency of rate changes since 2006 (especially as compared to the decades under the Postal Reorganization Act ratesetting regime), if this decade of history represents the "predictability" and "stability" envisioned by the objective's authors, then it has been achieved.

However, few in or out of the Postal Service would agree that making USPS rate authority simply a derivative of the CPI enables (or compels) the type of rate discipline and cost management that presumably was the expectation of the objective's authors. Accordingly, we again must answer the question of the objective's achievement with a "yes, but."

c. Objective 3: To maintain high quality service standards established under section 3691.

Evaluation of this objective requires the preceding determination that "high quality service standards" are those that have been implemented by the USPS pursuant to section 3691. Making that determination is outside the scope of this rulemaking, but for purposes of these comments, we would argue that they are not, at this time, what the objective's authors envisioned.

As noted earlier, the pressure to reduce costs logically motivated the Postal Service to look at where its greatest expenses were incurred and, in turn, to where significant cost savings could be developed – mail processing (including transportation) was an obvious target. As a result, in the years following the enactment of PAEA, squeezed between declining revenue (from recession-impacted volume) and levels of operating expenses that could not be underwritten with available or potential revenue, the agency chose to save money by reducing service standards, paring back its operational infrastructure, and modifying transportation modes. Naturally, these actions had a consequential impact on service, both actually and in the perceptions of ratepayers and customers.

Meanwhile, significant investment in technology since 2006 allowed the Postal Service to leverage the increasing use of the IMB to develop the capability to have pervasive visibility into the mailstream. In turn, this has enabled a rapidly improving capacity for near-real-time action to correct mailflow problems and improve overall service performance. While this is good news for mail users, it's arguable whether these management control enhancements (and related measures focused on improving service performance) were driven by the pressures to control cost (and rates) under PAEA, by simply the application of the underlying technological advances in the normal course of business, or by the realization that service *had to improve* if the agency was to slow the abandonment of hard-copy messages for electronic media.

Regardless, service performance is improving, but is it up to the "high-quality service standards" that were mandated by PAEA? Though statistics can be employed to enable an empirical evaluation, for any type of mail or in any specific area, it may be just as important to ask what ratepayers and customers consider "high quality service standards" to be, and whether those are being met in their non-empirical view.

Given that the current standards are less stringent that in 2006, and that the current situation includes virtually no overnight service for First-Class Mail, service for Periodicals continuing to be well below service goals, Standard Mail (USPS Marketing Mail) being constrained by "load leveling," and rural areas continuing to produce complaints (fairly or unfairly) about poor service, it would be difficult to conclude that "high quality service standards" are in place or that the objective has been met.

Revising service standards may have been seen as an essential enabler of cost savings in response to Objective 1, but that approach did nothing to advance the achievement of Objective 3.

d. Objective 4: To allow the Postal Service pricing flexibility.

Under the ratemaking process prescribed by the Postal Reorganization Act (PRA), essentially a cost-of-service model, the USPS calculated its current and anticipated costs, determined which were institutional and which were attributable to the classes of mail, and sought a rate increase that, applied over a period of years, would be sufficient to cover those costs. No external cap limited what the USPS could seek overall, for a class, or for specific rate categories or cells. The Postal Rate Commission would open a docket on the filing and examine the validity of the costs reported or anticipated by the Postal Service. During the ten-month process, inter-class disputes would arise as representatives of mailer and ratepayer groups sought to deflect increases away from the class of mail they used and toward the others.

In a perhaps odd way, the Postal Service had pricing "flexibility" under the PRA, but as a consequence of how that "flexibility" was manifest many in the mailing community supported inclusion in PAEA of provisions that would end both unbridled price increases and the running battle among the classes of mail over who should take the biggest hit. Instead, ratepayers sought protection through application of an external standard that would limit rate increases and, presumably, force USPS cost control.

The PRC defined a system meeting Objective 4 as one that "allows for the Postal Service to exercise its discretion to set prices, the price structure, and the price schedule for market dominant products ... ." Narrowly speaking, that definition and, in turn, the objective have been met. The Postal Service can elect the degree to which prices are increased (subject to the CPI cap), can redesign its prices structure, and can modify its schedule of prices for market-dominant products (subject to PRC approval). But does this narrowly circumscribed evaluation show the true picture and, in turn, advise whether the objective has been met in the literal and functional sense?

We would argue that whatever "flexibility" the Postal Service has exists only within a small range of discretion. Most obviously, in exercising its "flexibility," the USPS cannot exceed the CPI cap (except under the "exigency" provisions of the statute that are seldom applicable). Realistically, it cannot forego a maximum allowable rate increase so long as all available revenue must be generated to cover externally-imposed costs. And it must stay within other limitations, for example when setting workshare discounts or offering new incentives (promotions).

The Postal Service does not have the flexibility to amend its prices as private carriers can. While this may be appropriate given the agency's limited statutory monopoly, the current process still represents a perimeter of limitation that significantly degrades the agency's ability to respond to cost pressures, marketplace conditions, or inter-class cost coverage inadequacies. We would not advocate allowing the USPS complete, unfettered latitude to set prices, despite its acknowledgement that the marketplace and its own desire to not price mail unattractively would represent a natural constraint on prices, but neither can we favorably evaluate a pricing regime where meaningful pricing flexibility is more theoretical than real.

So, to answer the question of whether the Objective is being achieved, the answer would be, technically, "yes," but in a practical and meaningful sense, "no."

e. Objective 5: To assure adequate revenues, including retained earnings, to maintain financial stability.

The commission defines a system meeting this objective as one that enables the USPS to be "financially solvent while able to respond to changes in its environment (e.g., volume erosion, legal or regulatory framework, demographic trends) and meet its statutory obligations (e.g., pricing and universal service)."

Looking narrowly at whether the PAEA ratesetting process has provided the USPS with sufficient revenues to offset what the Postal Service categorizes as "controllable costs," the ratesetting process has been successful. However, that narrow examination ignores the reality of the agency's operating environment – which includes costs that are not "controllable" – and, consequently, is both misleading and substantively incorrect. Looking at the larger picture, the Postal Service is financially endangered so, upon an evaluation in the full context of reality, this objective is not being met.

Simply put, the limitation on revenue increases imposed by PAEA (i.e., the CPI cap) rendered it incapable of being financially stable given the burdens concurrently imposed on it by another provision of the same law (i.e., the prefunding mandate).

The USPS can, and has, responded to volume erosion and other environmental changes, to meet its obligations to set prices in compliance with statute, and to provide universal service. But it did so despite, not because of, the ratesetting process set forth in PAEA. Along the way, in addition to service changes (noted above), it has chosen – for lack of any other alternative – to default on mandated payments so that payroll and operating expenses could be met; it has delayed infrastructure improvements, and tolerated a delivery fleet that's outlived its designed lifespan; and it's taken on the maximum level of debt from borrowing that the law would allow. But these measures have left the agency with crushing debt and no meaningful "retained earnings" to fund basic capital investments or hedge against business downturns. This situation is not that of a financially viable or stable organization.

Achieving financial stability as envisioned by the objective's authors would have meant the USPS either would not have been forced to bear the uncontrollable, non-operational, mandated costs concurrently imposed by law – whether prefunding or other retirement and retiree health-related costs – or would have been given either the appropriated revenues or a revenue authority adequate to fund these mandates (without driving away mail users).

At present, it has the opposite: mandated costs it cannot control, and a limit on revenue authority linked to an index that does not recognize external mandated costs and that, consequently, fails to provide a level of revenue generation sufficient to underwrite the sum of its “controllable” and “uncontrollable” costs.

Regardless of how the management of the *Postal Service* is perceived, the statutory environment within which it must operate the agency is the result of *Congressional* mismanagement: irresponsible decisions that, collectively, represent the epitome of political duplicity and hypocrisy. This pattern of misaligned legislation has ensured that the Postal Service cannot be financially stable without significant *politically unpalatable* operational revisions or changes to its statutory environment.

For the purposes of the instant matter, the achievement of Objective 5 is thus impossible.

f. Objective 6: To reduce the administrative burden and increase the transparency of the ratemaking process.

Though an accurate evaluation of the burdens upon the Postal Service and the Postal Regulatory Commission imposed by PAEA is best left to those entities, it would seem from the outside that those burdens are *relatively* lighter than they were under the PRA. For ratepayers and their representatives at least, while rate proceedings under PAEA are not work-free, they entail a significantly lower amount of litigation (and cost) than resulted from the earlier process.

Whether due to the commission’s rules under which the ratesetting process now operates or the greater generation and use of data resulting from technological advances, the transparency of the *ratesetting process* is no longer an issue of concern for ratepayers. To be sure, there’s always more data that could be sought, the Postal Service could be more amenable to improving its costing systems and fully disclosing cost details, and finer levels of correlation could be established between the costs for specific types of mail and the rates applied to them but, even with such shortcomings, we believe the overall answer to the question of whether Objective 6 has been achieved should be “yes.”

g. Objective 7: To enhance mail security and deter terrorism.

We do not find that the current ratesetting process has materially affected the Postal Service’s ability to safeguard the mail or inhibit its use for illegal or terroristic purposes. The responsible agencies (e.g., the US Postal Inspection Service and the Office of the Inspector General) continue to perform their duties relevant to this objective, but not because of any direct consequence of PAEA or the ratesetting process.

Therefore, absent any reason to respond otherwise, the answer to whether Objective 7 is being met would be “yes.”

h. Objective 8: To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

The PRC defined a system meeting this objective as one that would require "rates and classifications [that] are linked to distinct cost or market characteristics, and the amount charged for each service is neither excessive to the mailer nor threatens the financial integrity of the Postal Service."

It is our conclusion that, "yes," in implementing the current ratesetting process, the PRC has ensured the achievement of this objective.

i. Objective 9: To allocate the total institutional costs of the Postal Service appropriately between market dominant and competitive products.

The PRC defined a system meeting this objective as one that "has a mechanism to appropriately divide total institutional costs between market dominant and competitive products in a manner reflecting the relevant statutory considerations."

Here again, it is our conclusion that, "yes," in implementing the current ratesetting process, the PRC has ensured the achievement of this objective.

That there are private carriers and other USPS competitors that, for their own business purposes, seek to alter the categorization of costs as institutional or attributable, to increase the cost burden on competitive products, and in turn to force upward USPS prices on those products, does not mean that the PRC is failing in its oversight responsibilities or that the objective is not being met.

V. EVALUATION OF THE SYSTEM

In view of the foregoing comments on each of the statutory objectives of the PAEA ratesetting process, and in summing those evaluations to form an evaluation of the ratesetting process as a whole, we conclude that the current ratesetting system is *not* working because it has not achieved critical objectives, specifically because:

a. It forced operational decisions to make cost reductions (to become more "efficient") which consequently caused reductions in access to services, service standards, and service performance;
b. It failed to account for the effect of external costs on the agency's ability to establish predictable patterns of reasonable degrees of price change;
c. It failed to meaningfully expand the practical price-setting flexibility of the USPS;
d. It linked the Postal Service's rate authority to an index of consumers' cost experience that's of arguable relevance to the cost experience of the USPS; and
e. It failed to account for both the impact of exogenous imposed costs and the adequacy of the ratesetting process to yield revenues sufficient to meet those costs.

It is our view that, in sum, the current process has failed in part by seeking to control prices as a proxy for controlling costs, by looking too narrowly at what the ratesetting process must underwrite, and by imposing limitations that frustrate its own objectives.

VI. MODIFICATIONS

We recommend that the PRC consider the following modifications to the ratesetting process.

a. **Change the standard against which postal rate increases are evaluated.**

While we share the belief that some form of objective reference standard is necessary to constrain rate increases, as the CPI was meant to be, we do not believe that the Consumer Price Index for All Urban Consumers is the correct standard to use. The CPI measures consumer costs which are not necessarily congruent with USPS controllable costs, and certainly not with the uncontrollable costs it faces. If an index is to be used, it should relate to comparable businesses, operating under comparable circumstances, facing comparable costs and obligations.

In other words, in setting the price for apples, look at the cost and price trends for apples, not for oranges.

b. **Regulate the controllable drivers of rate increases, not the rate increases themselves.**

PAEA used revenue limitations to force cost reductions, but failed to enable reasonable examination of whether the cost reduction actions taken were prudent or appropriate. In other words, PAEA told the USPS that its revenues were being limited, and that it had to figure out how to live within those amounts.

Rather than regulating prices as the proxy for regulating postal costs, we believe that an objective standard should be established against which to evaluate the controllable costs reported by the Postal Service, and that price increases be linked to such a standard, not to the costs experienced by consumers.

In addition, we recommend that, in response to a rate change request, the PRC examine the underlying costs, evaluate whether those are in alignment with the costs of comparable industries, and whether USPS cost control measures are consistent with, and supportive of, other objectives of the statute and the USPS. By this, we do not propose that the PRC encroach on the oversight of USPS operations that rests with its Board of Governors, or that the PRC direct the USPS on what to do to control its costs – that's the job of postal management – but rather that the PRC evaluate how Postal Service costs in the aggregate differ from those experienced by similarly-situated enterprises, and adjust requested rate increases accordingly. (By looking at costs in the aggregate, or in broad categories, USPS costs would be more equitably evaluated *overall* that by examining positive and negative differences at more granular levels.)

If PAEA's objective of incentivizing USPS efficiency is to be meaningfully implemented, it should reflect where controllable *costs* differ from those of comparable industries, hence our belief that the PRC should be empowered to adjust a requested rate increase to the extent that aggregate *costs* differ from an objective standard.

To some, this may appear to be a return to the PRA "cost-of-service" model but, unlike under that method, in which costs were simply passed along to ratepayers, we propose that the regulator focus on evaluation of costs rather than of the rates intended to offset them, and allow the pass-through of cost in rates only to the extent that those costs are in reasonable alignment with those of comparable businesses.

c. **Include service consequences in the evaluation of rate changes.**

As noted, there is no alignment under the present ratesetting process between the objective of controlling rate increases and the objective of high-quality service; the former is limited by a formula having nothing to do with the latter. The costs of providing postal services or meeting the universal service obligation are not factored into the Consumer Price Index. Conversely, to live within the limitations of the CPI cap, service reductions are sometimes implemented as cost control measures because those are the most available means by which to develop the needed savings, but such actions ultimately conflict with the public service obligations imposed on the USPS or the "high quality" service standards of Objective 3.

Therefore, as part of its examination of overall postal costs (above), the PRC concurrently should evaluate the costs represented by USPS service standards and necessary to provide required levels of performance, whether in delivery, retail, or mail processing efficiency. In turn, the commission should ensure alignment between service expectations, costs for those services, and the revenues to pay for them through a rate increase. In other words, the PRC needs to ensure that what it may impose as cost control (or revenue limitation) on the one hand does not, on the other, cause unavoidable choices by USPS management that decrease achievement of service objectives. If public – or public policy – expectations (or mandates) are to be met, it's only reasonable that the entity charged with meeting them be enabled to generate the necessary revenue to cover reasonable related costs.

d. **Separate controllable and uncontrollable costs, and ensure revenues are adequate for both.**

The current CPI-based ratesetting process was established with the apparent presumption that the USPS can control all of its costs. This flaw most conspicuously failed to acknowledge that the prefunding requirement was not a factor included in the Consumer Price Index and that, as a result, it represented a revenue need not factored into what the CPI cap would allow. Other external costs, such as accounting adjustments for the valuation of the workers' compensation liability, costs imposed to amortize retirement fund deficiencies, prefunding costs for future retiree health care, and costs consequential to arbiters' rulings are other examples of costs not accounted for in the CPI.

Therefore, we recommend that the PRC evaluate and separate the costs the USPS can and should control from those it cannot, and implement cost and rate review measures that appropriately recognize both, i.e., that the cost review (and rate increase) mechanism recommended above be applied solely to "controllable" USPS costs. Rate increases necessary to pay all but minimal "uncontrollable," i.e., externally mandated costs, should be commensurately allowed *in addition* to increases for "controllable" costs. We realize that such additional rate increases may not be insignificant, and may be unpalatable to ratepayers and mailers, but "uncontrollable" costs can neither be ignored nor (unless minimal) absorbed. Consequently, absent Congressional action to make such costs affordable or to provide funding for them, or continued defaulting on payment of those costs, the ratesetting process must recognize and provide a means to pay them.

VII. CONCLUSION

The need for a financially viable and stable Postal Service is inarguable. So too, however, is the need for a ratesetting process that uses relevant, objective indices to evaluate both the costs reported by the Postal Service and the rates the agency requests to pay those costs. Such a process also must differentiate between the costs the USPS can control and those that are imposed on it, and allow for rates to cover both. Finally, such a process recognizes the necessary balance between cost management and service, and ensures that adequate income is allowed the USPS to pay for the level of service expected by the public or mandated by Congress.

The ratesetting process must be reasonable, logical, and rational *as a whole*, ensuring that revenues are sufficient to pay for what the Postal Service is expected – or mandated – to do. Anything less, though more attractive politically or less painful to ratepayers, simply doesn't make sense, and ultimately won't work to achieve the objectives of the statute.

To be sure, there are shortcomings in the current ratemaking process, but none that cannot be remedied by the PRC through this review process and within its authority under section 3622.

Respectfully submitted,

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